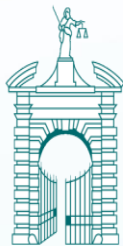


Revenue



Cáin agus Custaim na hÉireann
Irish Tax and Customs

REVENUE

COMPREHENSIVE REVIEW OF EXPENDITURE 2014

June 2014

Introduction

Revenue's core business is to fairly and efficiently collect taxes and duties and implement Customs controls. The Government's Medium Term Economic Strategy, Action Plans for Jobs and National Reform Programmes recognises that a progressive, stable and effective taxation system can both fund public services and at the same time encourage fiscal sustainability and economic growth.

As the State's primary collection arm Revenue's contribution to the Comprehensive Review of Expenditure is focussed on fiscal sustainability through increased revenue raising opportunities, with cost reduction and savings as a secondary pillar. In this paper Revenue reviews strategic achievements. Revenue has played a significant part in maintaining government revenues in a very challenging economic environment.

Revenue has played its part in cost reduction. Revenue's administrative budget has reduced by 20% since 2008. Revenue has also played its part in public sector staff reductions, Revenue's staffing levels have reduced by almost 13% since 2008. This compares to a reduction of 8 % in the Civil Service.

The reduction in staffing levels, at the same time as the introduction of new taxes and schemes and additional compliance risks due to the recession, has impacted negatively on customer service standards and certain compliance activity. Any further reduction will impact negatively on tax and duty collection and compliance rates.

In 2013, for every € invested in Revenue the State earned a return of over €95. Failure to maintain an adequate audit resource could lead to a revenue loss of €10m for every €1m "savings". Failure to effectively combat illicit activity, including oils, tobacco and alcohol, will also have significant negative reputational and exchequer impact. International experience shows that continuous budgetary and staffing cuts negatively impacts on a Revenue Administration's levels of services and its ability to tackle compliance.

However, the strategies undertaken by Revenue have consistently shown that investments yield high returns. The revenue increasing, "spend to save" and cost efficiency options identified in this paper cannot be introduced without investment in resources. There is a particular need for on-going strategic investment in technology, e.g. improving the interface for the taxpayer, use of 3rd party and real time data, data analytics, etc., that will yield significant returns on investment.

Failure to invest in certain areas will also lead to potential revenue losses. For example, a failure to invest c €1.5m in transfer pricing skills could result in revenue losses of €10m per annum in correlative adjustments. International developments such as BEPS, FATCA and MOSS will also require increased investment in systems and staff. Failure to invest will impact negatively on Ireland's reputation and attractiveness for foreign direct investment.

An adequately resourced Revenue administration can continue to maximise its contribution to Exchequer funding and meet its international obligations. In contrast, further savings and cuts increases the risk that the exchequer will lose more than the actual savings realised.

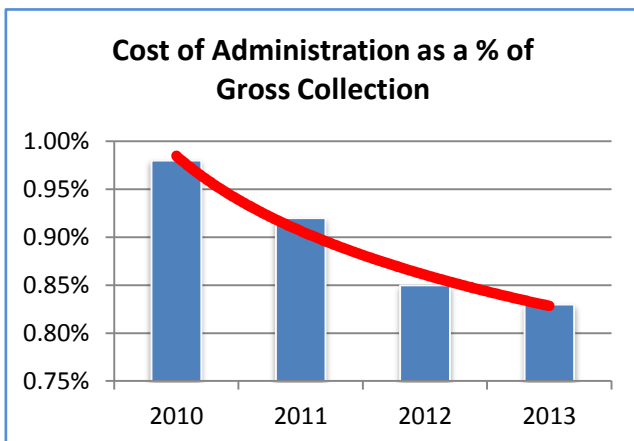
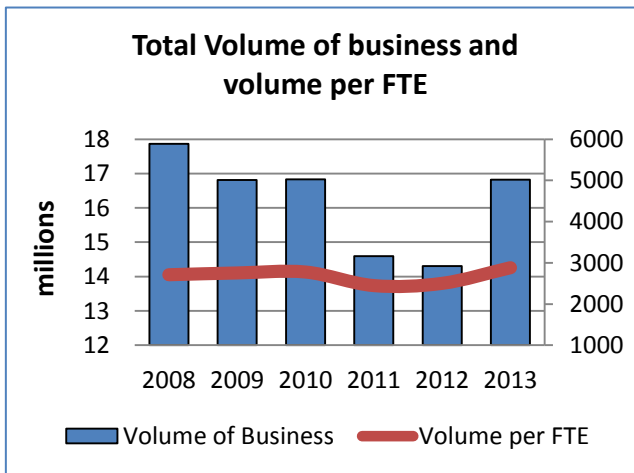
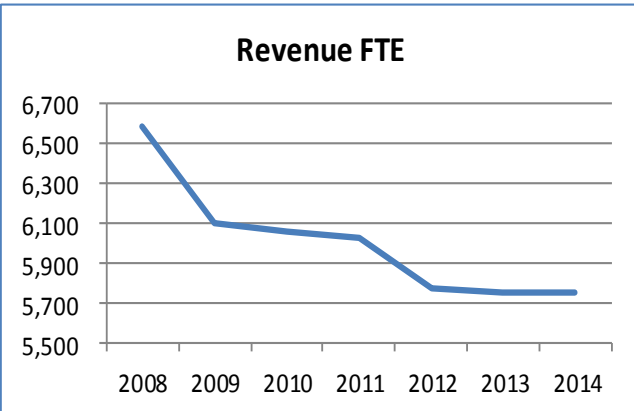
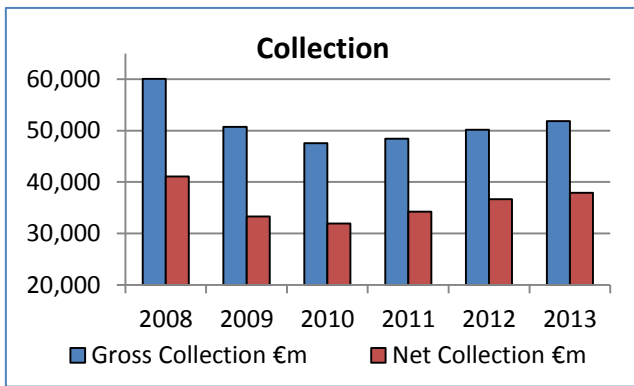
Increase Revenue Stream Options

Increase revenue streams options	Cost	Yield
Comprehensive review and re-engineering of the PAYE system	€10m	>€20m
Widen “relevant” contracts for RCT to include all payments by Government Departments and Agencies	€2m	>€10m pa
Develop and deploy enhanced debt analysis tool	€0.5m	€5m pa
Household charge arrears	€5m	€40m
Prioritise use of new anti-fraud powers in Finance Act (no 2) 2013	€1m	€20m pa
Maximise use of Social Network Analysis tool	€0.1m	€2m pa
Leverage Home Renovation Incentive scheme for improved compliance	€0.5m	€10m
Increase use of analytics to detect fraud	€1m	€5m pa
Additional compliance projects such as oils, tobacco, alcohol	100 FTE = €5m	€20m pa
Compliance project using Merchant Acquirer data	€0.1m	€12m
Reform of the appeal system to include payment on account of tax in dispute	€5m	€100m cash flow
Develop systems and structure to support new EU VAT Mini One Stop Shop (MOSS) initiative	€1m	€10m pa

Spend to Save and Efficiency Savings

Spend to save and efficiency savings	Cost	Savings
Issue all repayments to business taxpayers electronically	€0.75m	€0.5m pa
Complete initial phase of contact reduction strategy	€0.5m	€0.25m pa
Electronic return of income (F12)	€1.4m	€1.5m pa
Mandatory e-filing of Share Option data by employers	€0.75m	€3m pa
New On-line Tax Clearance arrangements	€1m	€0.5m pa
Review of interaction of tax expenditures and other State supports (e.g. disabled drivers, health expenses, film relief).	€0.1m	€0.25m pa
Increase pre-population of returns	€0.25m	€0.5m pa
eManifest	€2.3m	€3.0m pa
Automated Issue of Final Demand	€0.1m	€0.3m pa
Increase / maintain by recruitment audit resource	100 FTE €5m	€50m pa
Increase investigation resource	20 FTE €1.5m	€12m pa
Increase anti-avoidance resource	15 FTE €1m	€10m pa
Increase transfer pricing resource to defend correlative adjustments	20 FTE €1.5m	€10m pa
Implement procurement reforms in line with OGP guidelines	€0	€0.25m pa
Hosting ICT shared services	€0.5m	€2.0m pa

Summary



- Revenue's core business is to fairly and efficiently collect taxes and duties and implement Customs controls.
- Over the past three years Revenue has played its part in fiscal consolidation by effective tax and duty collection.
- Revenue has also made a significant contribution to savings through ECF and cost reduction. Revenue's staffing has reduced by 13% since 2008.
- At the same time Revenue has successfully taken on additional work (e.g. LPT, Household charge arrears and Home Renovation Incentive scheme).
- Revenue's primary contribution to this Comprehensive Review of Expenditure is focussed on fiscal sustainability and revenue raising opportunities.
- Revenue's activities are efficient and effective and have a positive return on investment.
- Reducing Revenue's resources can have a negative impact on service and compliance yield.

Revenue's Strategic Objectives



International Experience

US Government Accountability Office – April 2014:

“IRS has absorbed budget cuts since fiscal year 2010, and the resulting imbalance between service and demand has adversely affected operations”.

Taxpayer Advocate Service – Annual Report to Congress 2014:

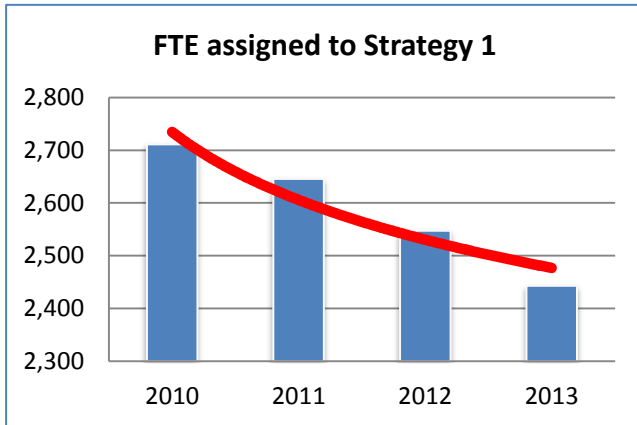
“The IRS is significantly and chronically underfunded to serve America’s taxpayers and collect the amount of tax due under law.”

Public Accounts Committee UK Parliament report on Tax Avoidance 2013 :

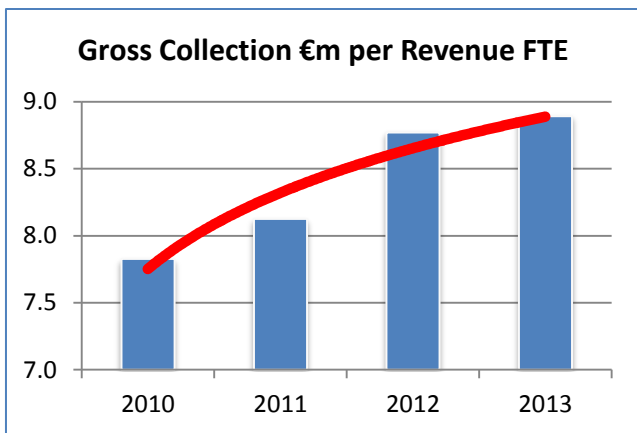
“HMRC is not able to defend the public interest effectively when its resources are more limited than those enjoyed by the big four firms.”

IMF Country Report : Ireland 2010 – *“It will be critical that the tax administration has continued adequate funding and capacity to effectively implement the planned tax policy changes and to counteract lower compliance pressures due to the recession.”*

Strategy 1: Make it easier and less costly to comply



- Staffing levels on activities to make it easier and less costly to comply have reduced since 2010.
- Staffing levels have reduced at a rate greater than ECF reduction.



- Budgeted Revenue collected.
- Gross collection per Revenue FTE rose from €7.83m in 2010 to €8.89m in 2013.

Key Performance Indicators	2009	2010	2011	2012	2013
Use of Electronic Channels	56%	65%	73%	78%	88%
Volume of Paper Correspondence	3,153,329	2,891,644	2,726,385	2,056,636	1,950,099
Volume of Phone Contacts	4,003,765	3,928,622	3,962,335	1,500,645	2,439,998
% Calls Answered within 5 mins	91%	95%	91%	71%	74%
Cost of handling a Phone Call	N/A	N/A	€7.10	€6.74	€6.20
Costs of processing an item of Correspondence	N/A	N/A	€29.93	€23.71	€26.46

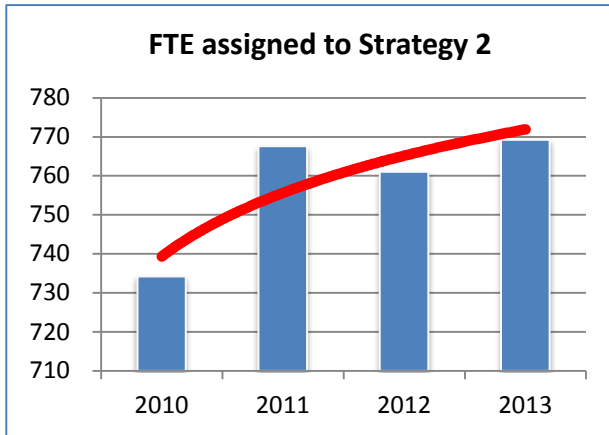
- The use of electronic channels has increased.
- Administrative burden costs for business have reduced by 25% since 2008.
- Customer service targets have not been met due to reduced staffing.
- Further reductions may impact on voluntary compliance levels.

Make it easier and less costly to comply

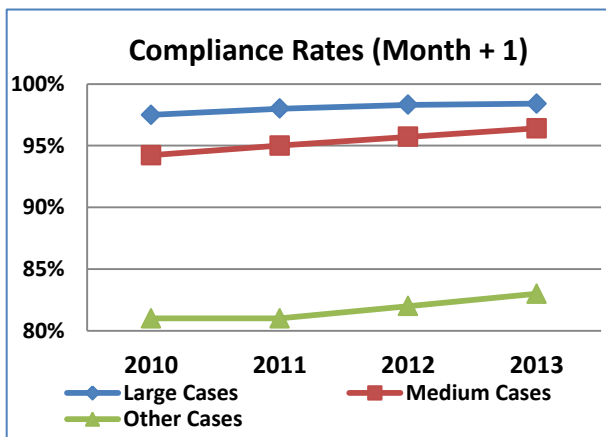
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Comprehensive review and re-engineering of the PAYE system	€10m	>€20m
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Spend to save and efficiency savings	Cost	Savings
Issue all repayments to business taxpayers electronically	€0.75m	€0.5m pa
Complete initial phase of contact reduction strategy	€0.5m	€0.25m pa
Electronic return of income (F12)	€1.4m	€1.5m pa
Mandatory e-filing of Share Option data by employers	€0.75m	€3m pa
New On-line Tax Clearance arrangements	€1m	€0.5m pa
Review of interaction of tax expenditures and other State supports (e.g. disabled drivers, health expenses, film relief).	€0.1m	€0.25m pa
Increase pre-population of returns	€0.25m	€0.5m pa
eManifest	€2.3m	€3.0m pa

Strategy 2: Increase timely compliance and reduce debt



- Staffing levels on activities to increase timely compliance and reduce debt have increased.



- Return filing and payment compliance has generally increased.

Key Performance Indicators	2009	2010	2011	2012	2013
Debt Available for Collection	1,443	1,389	1,403	1,180	1,009
Debt/GDP Ratio	1.17%	1.19%	1.18%	1.20%	1.14%
Number of Viable Businesses supported	12,644	14,642	15,865	16,081	16,474

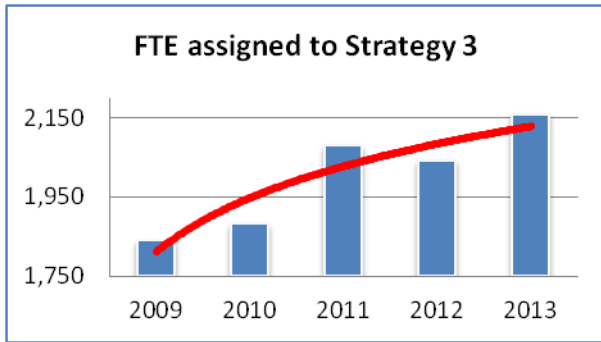
- Debt available for collection has reduced by 28%.
- Debt/GDP ratio has reduced from 2010.
- Support has been provided for viable businesses through phased payment arrangements.

Increase timely compliance and reduce debt

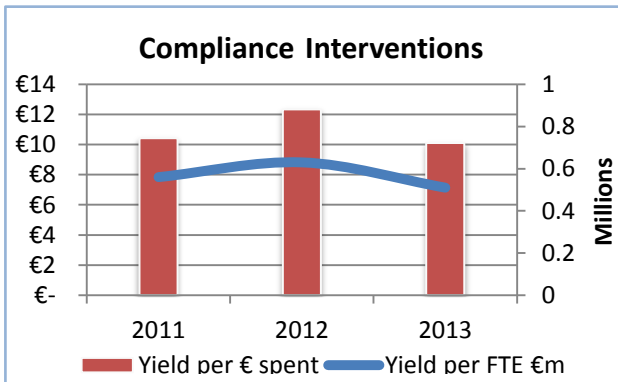
Increase revenue streams options	Cost	Yield
Develop and deploy enhanced debt analysis tool	€0.5m	€5m pa
Household charge arrears	€5m	€40m

Spend to save and efficiency savings	Cost	Savings
Automated Issue of Final Demand	€0.1m	€0.3m pa

Strategy 3: Target and confront those who do not comply



- Staffing levels on activities to target and confront those who do not comply have been prioritised.



- Investment, both in terms of staff and resources, in compliance consistently generates yield.

Key Performance Indicators	2009	2010	2011	2012	2013
Number of Compliance Interventions	373,718	465,804	557,568	692,773	626,563
Total Yield from Compliance Interventions €m	670.30	492.70	521.90	603.29	549.10
Audit € Yield per € Spent	N/A	N/A	14.34	12.15	10.42
Number of Seizures and Detections	25,301	23,665	30,504	28,181	17,039
Yield from Seizures and Detections €m	136.90	86.50	75.54	96.50	44.30
Number of Serious Convictions	10	12	30	50	34

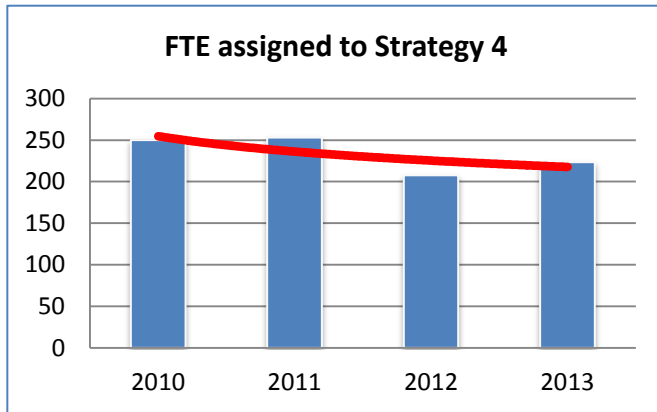
- Revenue has increased its focus on identifying shadow economy activity.
- Increased use of third party information to better focus and target areas of non-compliance.
- Resources have been shifted from customer service work to focus on compliance work; for example PAYE compliance checks yielded €30.5m in 2013.
- The number and yield from risk based interventions has increased.
- Significant increase in the number of convictions for serious tax and duty evasion. The number has increased from 12 in 2010 to 34 in 2013.
- Increased detection and challenge of abusive tax avoidance.
- In the period 2011 to 2013, Revenue has seized cigarettes and tobacco with a value of €116m, seized drugs with a value of over €94m, closed 29 oil laundries, seized over 4,750 vehicles, made over 3,600 marked mineral oil detections and made 147 cash seizures to the value of €3.6m.

Target and confront those who do not comply

Increase revenue streams options	Cost	Yield
Prioritise use of new anti-fraud powers in Finance Act (no 2) 2013	€1m	€20m pa
Maximise use of Social Network Analysis tool	€0.1m	€2m pa
Leverage Home Renovation Incentive scheme for improved compliance	€0.5m	€10m
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Additional compliance projects such as oils, tobacco, alcohol	100 FTE €5m	€20m pa
Compliance project using Merchant Acquirer data	€0.1m	€12m

Spend to save and efficiency savings	Cost	Savings
Increase / maintain by recruitment audit resource	100 FTE €5m	€50m pa
Increase investigation resource	20 FTE €1.5m	€12m pa
Increase anti-avoidance resource	15 FTE €1m	€10m pa
Increase transfer pricing resource to defend correlative adjustments	20 FTE €1.5m	€10m pa

Strategy 4: Contribute to Ireland's economic strategy



- Staffing levels engaged on activities to contribute to Ireland's economic strategy have remained stable.

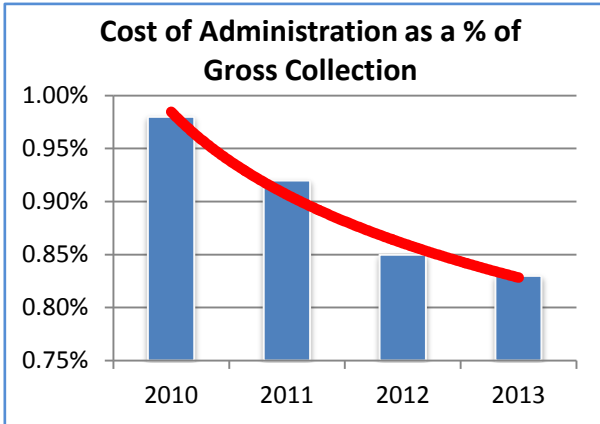
Key Performance Indicators	2009	2010	2011	2012	2013
Number of Formal Appeals Concluded	78	72	107	115	96
Number of Appeals won by Apellant	15	5	25	13	13
Number of Tax Treaties concluded and signed	7	6	4	4	3
Ease of Paying Taxes EU Rank	1	1	1	1	1
Ease of Paying Taxes World Rank	6	6	5	6	6

- Since 2011 Revenue has advised on 7 Finance Acts and 34 Statutory Instruments.
- The number of tax treaties has been extended from 62 in 2010 to 70 in 2013.
- Revenue is both an active participant and leader at EU, OECD, WCO and other international fora.
- Additional resources have been allocated to specifically support the OECD Base Erosion and Profit Shifting (BEPS) work agenda.

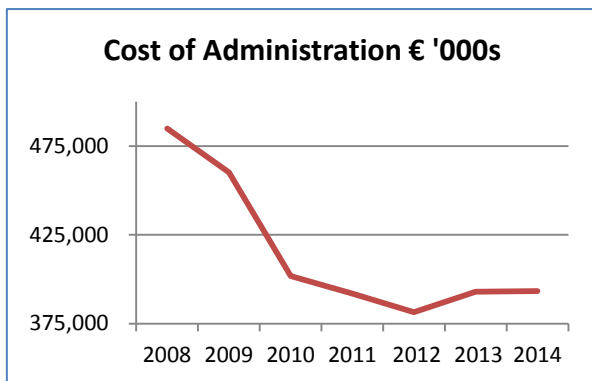
Contribute to Ireland's economic strategy

Increase revenue streams options	Cost	Yield
Reform of the appeal system to include payment on account of tax in dispute	€5m	€100m cash flow
Develop systems and structure to support new EU VAT Mini One Stop Shop (MOSS) initiative	€1m	€10m pa

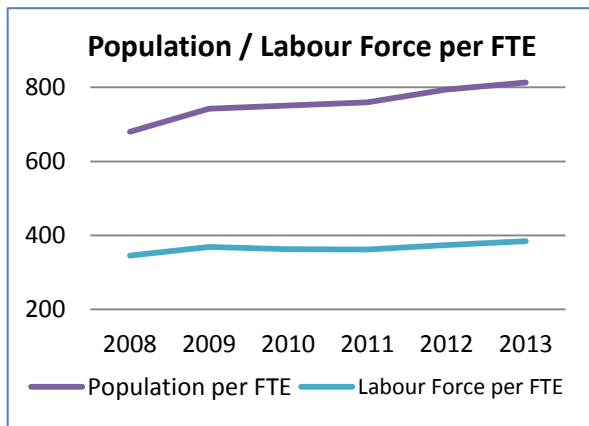
Revenue Enablers



- Revenue's cost of administration as a % of gross collection has declined from 0.92% in 2011 to 0.83% in 2013.



- Revenue's total current Budget has reduced from €473.6m in 2008 to €380.9m in 2014, a 20% reduction. Non pay current is down €44m, 31%.



- Revenue's staffing to population and labour force is less than comparable countries.

- Technology costs as a % of total administrative budget has decreased from 13.6% in 2010 to 12.6% in 2013. This is at the average level for OECD Tax Administrations. Further decreases in investment on ICT technology will increase risks in the sustainability of compliance and exchequer funds.
- Revenue is actively participating in the civil service shared service projects.
- Revenue provides ICT and print shared services to other Government Departments and State Agencies.

Revenue Enablers

Spend to save and efficiency savings	Cost	Savings
Implement the procurement reforms in line with OGP guidelines	€0	€0.25m
Hosting ICT shared services	€0.5m	€2.0m pa